31 August 2023

Ms Anna Collyer
Chairperson
Australian Energy Market Commission

Submitted through [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Ms Collyer

**Stanwell Corporation Limited Response to Australian Energy Market Commission Directions Paper – *National Electricity Amendment (Operating Reserve Market Directions Paper) Rule***

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Directions Paper - *National Electricity Amendment (Operating Reserve Market Directions Paper) Rule* (the 2023 Directions Paper).

Stanwell is a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia. We own and operate two coal-fired power stations, providing reliable and affordable energy, with a pipeline of renewable generation and storage technologies to reduce our emissions intensity and create future opportunities for our people and communities.

This submission contains the views of Stanwell in relation to the Directions Paper and should not be construed as being indicative or representative of Queensland Government policy.

In its response to the AEMC's January 2021 Directions Paper – *Reserve Services in the National Electricity Market*,[1] Stanwell provided cautious in-principle support for an in-market 30-minute operating reserve service that is dispatched by NEMDE, allows for co-optimisation, is technology neutral and adopts causer-pays principles. It was our view at the time that an operating reserves market may have the potential to address some of the operational implications and challenges that the NEM faces as variable renewable energy progressively displaces aging synchronous generation units.

However, Stanwell remained uncertain as to whether there would be an enduring need for this service, particularly given the broader market transformations contemplated and being undertaken at that time. Consequently, we reserved judgement on the merits of an operating reserves market until such time that the AEMC undertook a comprehensive cost benefit analysis in the context of the NEM 2025 reforms.

[1] Stanwell Submission to 2021 Directions Paper

In its 2023 Directions Paper, the AEMC acknowledged that an operating reserve market would likely provide greater visibility of market participants' reserve decisions, potentially helping to mitigate risks. Nonetheless, its analysis, supported by third-party modelling and AEMO input, revealed that any performance improvements relative to current arrangements would be outweighed by the costs imposed on the system operator, market participants and ultimately customers.

Stanwell notes the AEMC's view that the current arrangements have efficiently and effectively met the needs for reserves up to now, and are sufficiently flexible to manage the potential for a transitory increase in reserve needs in the future.[2] We also note however that AEMO and the AEMC are attempting to identify appropriate incentive mechanisms under the scheduled-lite rule change proposals and consider that an in-market operational reserve which is accessible only to dispatchable participants would have been one option to provide this incentive.

Accordingly, while seeing in-principle benefits of a well-designed operating reserves market, Stanwell accepts the AEMC's decision to not recommend implementation of an operating reserves market as it would not promote the long-term interests of consumers.

<u>Developing and publishing more information to the market</u>

The timely flow of relevant information to the spot market promotes competition and facilitates efficient decision-making on the part of market participants. As the NEM transitions, these information flows will become increasingly important to the efficient provision of energy services.

In particular, as storage devices become more ubiquitous, information about their state of charge at a point in time will be a crucial signal in relation to the commitment of capacity by market participants to accommodate the supply-demand balance in operational timeframes. It would assist market participants make efficient operational decisions which, in turn, would:

- improve system reliability, ensuring sufficient resources are available where and when they are needed, and
- promote productive efficiency by enabling reserves, FCAS and energy to be supplied at least cost.

Accordingly, as firming capacity connected to the grid grows, Stanwell believes there to be merit in state of charge/storage data for batteries and pumped hydro systems to be centrally-collected and provided to the market in an aggregated form, say by NEM region, as part of pre-dispatch or dispatch information. To the extent that AEMO currently receives real-time information from storage devices through SCADA, this incremental improvement should be achieved at minimal cost.

The AEMC has raised the possibility that this obligation could be extended to thermal plant which Stanwell considers may be relevant where they are energy constrained within the pre-dispatch timeframe. Where energy limits only apply beyond the pre-dispatch timeframe

[2] AEMC 2023, *Operating Reserve Market Directions Paper*, 3 August, p. 29.

current and future availability of capacity for scheduled generators are already available to the market in STPASA and MTPASA, and Stanwell is of the view there should be no additional reporting obligations introduced.

The AEMC has identified the potential risk of anti-competitive behaviour associated with increased supply-side information transparency.[3] While Stanwell agrees that the potential for any proposed regulatory change to lessen competition should be carefully assessed, we are also aware that much of this information is already publicly-available (or capable of being readily inferred) through market participant's own websites and specialist third-party software applications. As such, we consider this risk to be relatively low.

Conclusion

Stanwell recognises the benefits of an operating reserves market were found to be insufficient to justify its costs. In this context, we support the AEMC's decision to not recommend implementation of this arrangement, and believe that the incremental change to information provision could potentially realise greater benefits at lower cost for energy users.

Stanwell looks forward to further consultation with the AEMC on these matters as the rule change review progresses.

If the AEMC has any questions in relation to this submission, please refer them to Steve Williams, Market Regulations Senior Advisor, on 0409870998, or email at Stephen.Williams@stanwell.com.

Yours sincerely

**Ian Chapman**
***Manager Market Policy and Regulatory Strategy***

[3] AEMC 2023, *Operating Reserve Market Directions Paper,* 3 August, p.88.